

Western Conference of
Public Service Commissioners
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USF - The Problems Still Haven't Gone Away

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Commissioner

Oregon Public Utility Commission
State Chair USJB

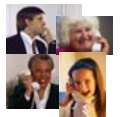


Four Federal Universal Service Fund (FUSF) Programs – 2007 Payments

- High-Cost \$4,287 Million
Support to local service providers in high-cost rural & insular areas to keep rates affordable
- Low-Income \$823 Million
Discounts on monthly service and installation charges for low-income consumers
- Schools & Libraries \$1,808 Million
Discounts to eligible schools & libraries for telecom services and internet access
- Rural Health Care \$37 Million
Discounts to rural health care providers for telecom services and monthly internet charges

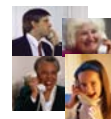
Total 2007 Payments

\$6,955 Million



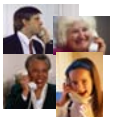
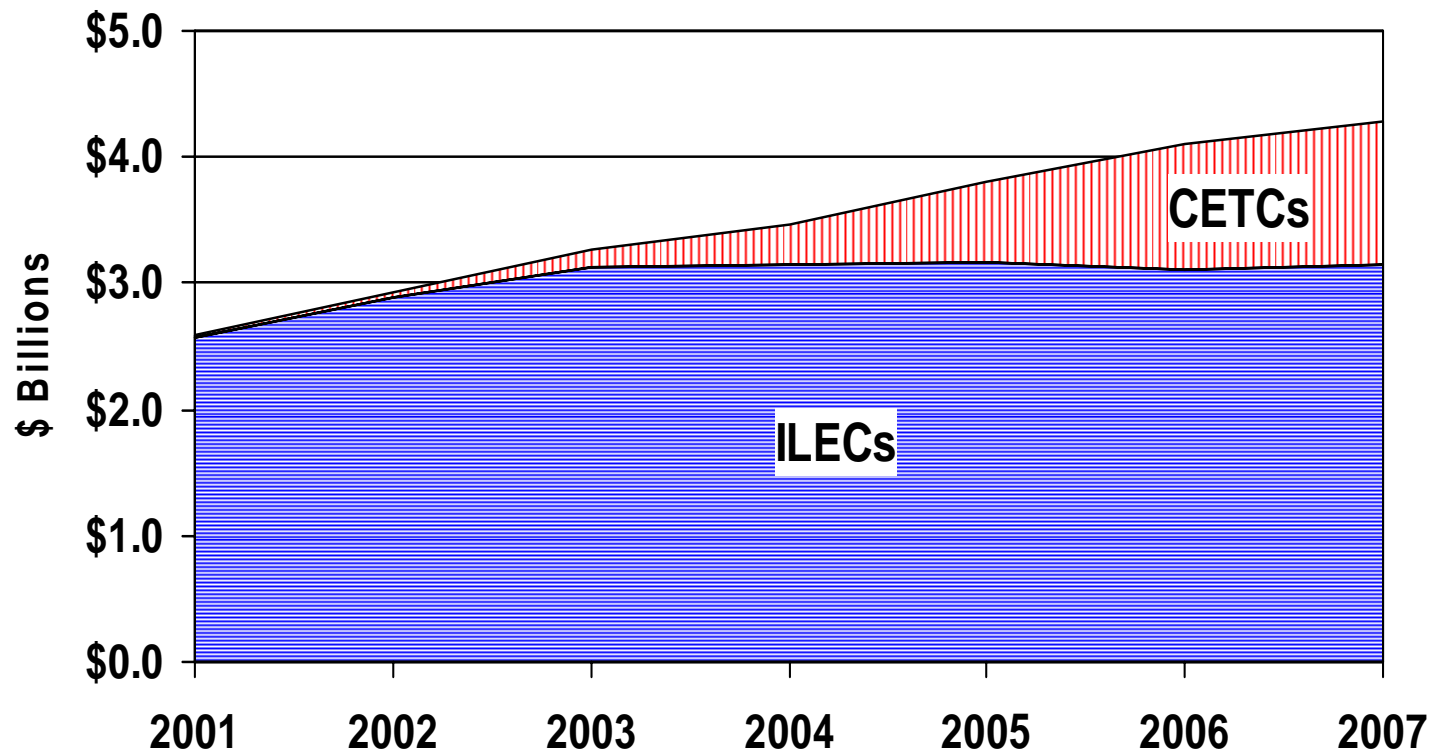
FUSF Surcharge

- Program costs recovered through surcharge on interstate and international end user telecommunications revenues
- 2Q 2008 surcharge rate = **11.3%** on relevant customer charges



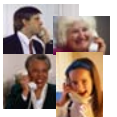
High-Cost Fund

- High-cost fund comprises 60% of total FUSF
- Fund grew from \$2.6B in 2001 to \$4.3B in 2007



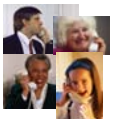
CETC High Cost Fund Payments

- High-cost payments to competitive ETCs grew from \$0 in 2000 to nearly \$1.2B in 2007
- States generally designate CETCs, most are wireless carriers
- CETCs receive support based on ILEC per-line support in designated area ("identical support rule")
- CETC support has become skewed across states similar to ILEC support pattern



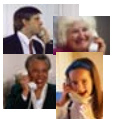
CETC Payments Across States

- CETC support distribution is skewed heavily toward a few states and is unrelated to need
 - Top 10 states (exclusive of Alaska & Puerto Rico) receive almost half of CETC support
 - Examples:
 - Mississippi: \$147m Louisiana: \$67m
 - Kansas: \$83m Wisconsin: \$55m
 - = \$352 million
 - Other rural states receive less than 10% of that amount
 - Examples:
 - South Carolina: \$0 Utah: \$0.3m
 - New Hampshire: \$0.2m Tennessee: \$1.6m
 - = \$2.1 million



JB Cap on CETC Payments

- Joint Board recommended interim cap on CETC high-cost fund support payments in May 2007
- Joint Board released its comprehensive reform proposal for the High Cost Fund in Nov. 2007
 - Three new funds
 - POLR (Provider of Last Resort)
 - Mobility
 - Broadband



Comprehensive Reform Proposals

- In January 2008, FCC released three NPRMs requesting comments on reform proposals
 - Joint Board comprehensive reform proposal
 - FCC proposal to replace identical support rule for CETCs with support based on CETCs' own costs
 - FCC proposal for reverse auctions as mechanism to determine support levels and supported providers



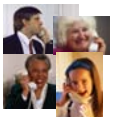
FCC Cap on CETC Payments

- FCC adopted interim cap on April 29, 2008, nearly a year after JB recommendation
- Cap is state-specific, set at level of March 2008 payments to CETCs (annualized) - \$1.329 Billion
- Two exceptions to cap
 - Any CETC filing cost data “demonstrating that its costs meet the support threshold in the same manner as” the ILEC
 - CETCs serving tribal lands or Alaska Native regions
- CETC support based on proportional share within each state cap



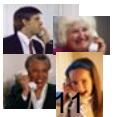
FCC Cap on CETC Payments (continued)

- No sunset date set because
 - “The Commission commits to completing a final order on comprehensive reform as quickly as feasible after the comment cycle is completed on the pending Reform Notices.”
- FCC also approved 31 pending CETC applications, but with no new funding and sent 3 back to Florida, Georgia, and the Virgin Islands on jurisdictional grounds



USF Reform & Intercarrier Comp

- FCC's News Release of May 2, 2008 ties USF reform with Intercarrier Compensation reform
 - Adoption of interim cap on CETC payments is "a crucial first step toward comprehensive reform of Universal Service and intercarrier compensation, two carrier compensation regimes that are directly interrelated."
 - The cap "will stabilize the Fund, enabling the Commission to now move forward expeditiously on comprehensive reform of both the universal service program and intercarrier compensation."



Other Related Dockets for Comment

- News Release also encourages parties to promptly refresh the record on open related dockets including
 - Intercarrier Compensation Reform Rulemaking Proceeding, CC Dkt 01-92
 - Intercarrier Compensation for ISP-Bound Traffic, CC Dkt 99-68
 - Federal-State Joint Board on Universal Service, CC Dkt 96-45
 - Universal Service Contribution Methodology, WC Dkt 06-122
 - High-Cost Universal Service Support, WC Dkt 05-337
 - Comprehensive Review of the USF Management, Administration, and Oversight, WC Dkt 05-195

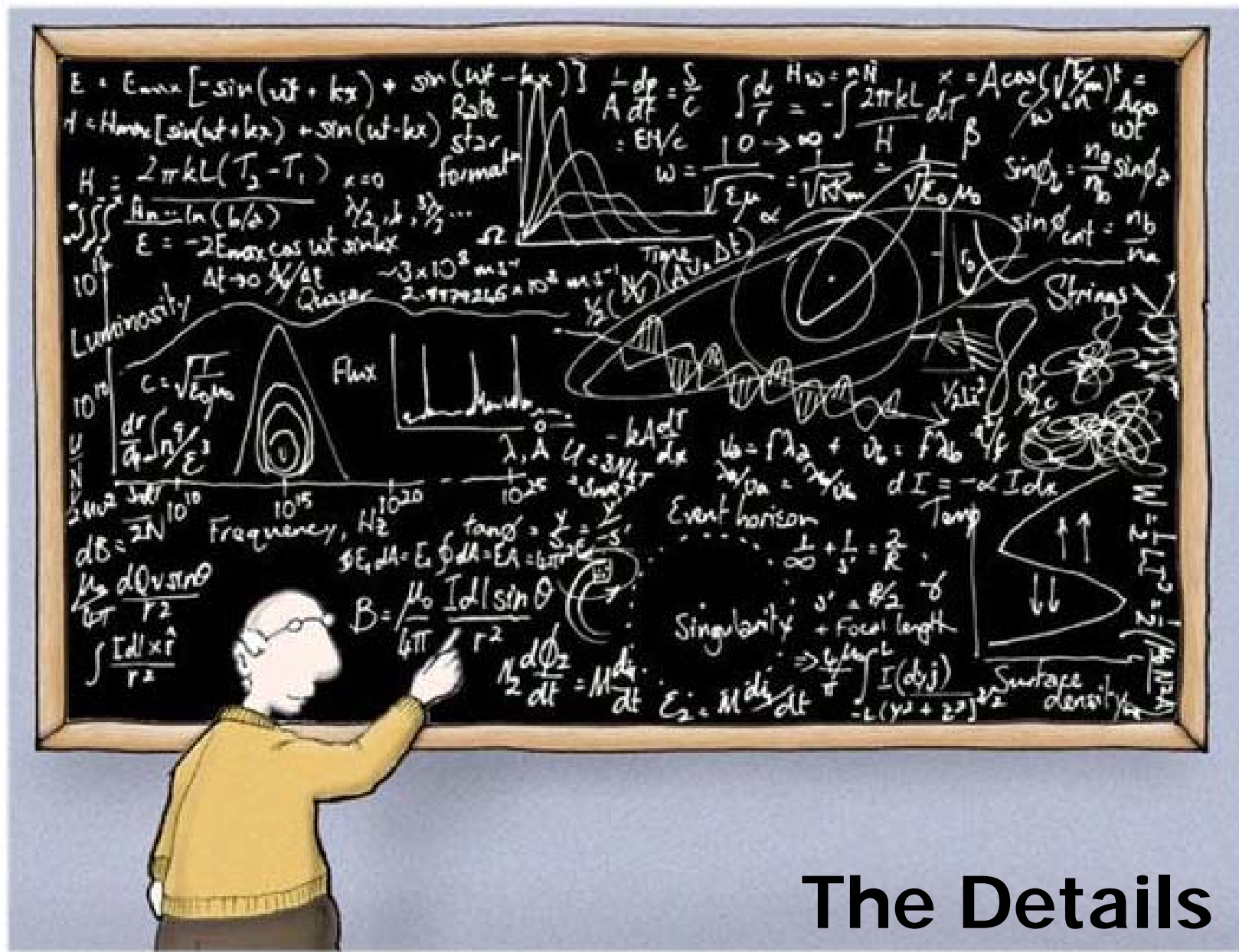


More Related Dockets for Comment

- More related dockets for comment
 - Lifeline and Link-Up, WC Dkt 03-109
 - Rural Health Care Support Mechanism, WC Dkt 02-60
 - Schools and Libraries Universal Service Support Mechanism, CC Dkt 02-6
 - MAG Plan for Regulation of Interstate Services of Non-Price Cap ILECs, CC Dkt 00-256
 - Changes to the Board of Directors for NECA, CC Dkt 97-21
 - Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Dkt 80-286

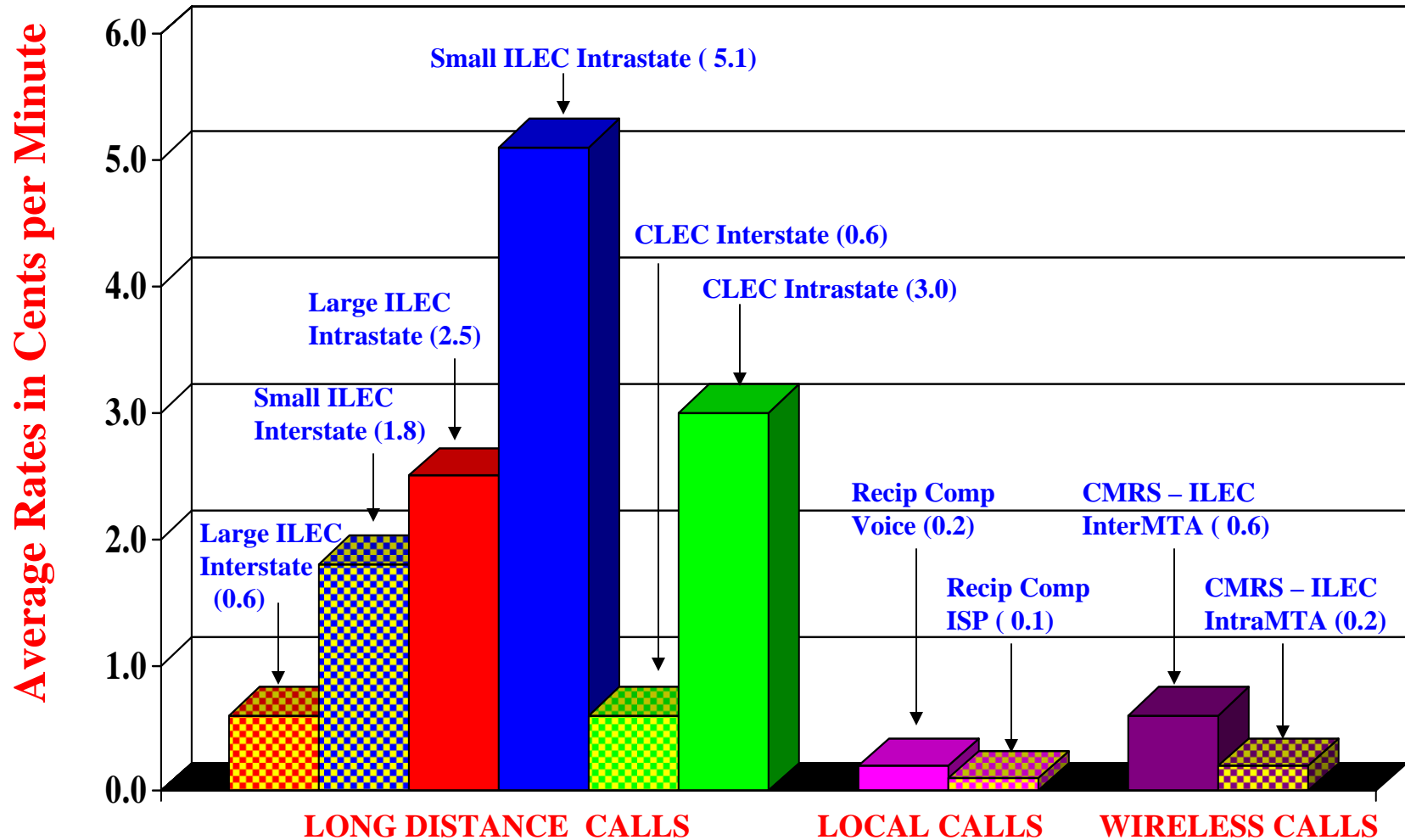


What is Intercarrier Compensation?



The Details

Current Intercarrier Compensation Rates The System is Broken



High (¢/min):	1.5	8.9	9.9	34.9	6.8	35.9	0.3	0.1	8.9	0.3
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0



**It is an
Election
Year**

**Is Comprehensive
Universal Service and
Intercarrier
Compensation Reform
possible this year?**

**Or... Is the Interim Cap
as good as it gets?**

